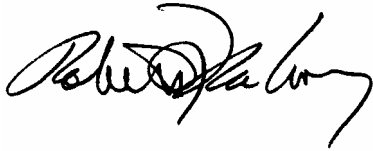


# **California Public Employees' Retirement System**

## **Parallel Valuation and Certification of the Actuarial Valuation of the Legislators' Retirement System as of June 30, 2004**

**Report Completed In Satisfaction of  
Task 3 of Contract 2003-3236**

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## Overview

EFI Actuaries has completed a parallel valuation and certification of the Actuarial Valuation of the Legislators' Retirement System (LRS) as of June 30, 2004. As a result, we are able to certify that the liabilities computed in this Valuation are reasonably correct and were computed in accordance with generally accepted actuarial principles. Based on the assumptions and methods employed in the Valuation, the total liabilities independently computed by EFI matched almost exactly with those in the Valuation.

The supporting calculations are presented in more detail below. However, there is one issue that should be considered – beneficiary ages.

Among active members and retired members for whom data is not available, wives are assumed to be three years younger than their husbands. A review of the data available for retired members shows that the average beneficiary of a retired male legislator is eight years younger, and the beneficiaries of retired female legislators average 11 years younger than the member. It may be appropriate to review and revise the current assumption accordingly. This is not a powerful assumption, but it will somewhat mitigate future losses as judges retire.

## Methodology

Parallel valuation and certification involves two steps:

- Review of Methods and Assumptions

The actuarial assumptions and methods employed in the LRS Valuation were reviewed by EFI in order to establish whether they meet acceptable standards of actuarial practice.

- Independent Parallel Valuation

In order to verify the correctness of calculations in the LRS Valuation, EFI conducted an independent, parallel valuation using its own actuarial model. This independent valuation determines whether actuarial assumptions and methods are applied properly and yield the reported results.

In preparing our parallel valuations, we relied on member and asset data supplied by CalPERS staff. As is usual in actuarial valuations, this data was neither audited nor independently verified.

## Review of Methods and Assumptions

The actuarial methods and assumptions used in the LRS Valuation are well within acceptable standards of actuarial practice.

Both CalPERS staff and EFI ignored the possible impact of benefit limitations under Internal Revenue Code Section 415 on liabilities and contribution rates. The effect of this Code section is almost certainly negligible.

Furthermore, neither CalPERS staff nor EFI included a liability for past legislators, not in CalPERS'

records, who may be eligible to repay withdrawn member contributions and receive a retirement benefit. Such liabilities are expected to be incidental, and will be recognized and funded as they emerge.

### Parallel Valuation

The LRS Valuation was performed by CalPERS staff using the Actuarial Valuation System (AVS). EFI validated the calculations by creating an *independent* actuarial model to develop the valuation results. The only data common to the two models was the participant data; the EFI model was developed separately, without reference to the one used by staff for the Valuation.

Table 1 below shows the results of the calculations. We note the fully projected liabilities produced by the Valuation and by EFI are in very close agreement in total.

**Table 1: Parallel Valuation Results**

	<b><u>LRS</u></b> <b><u>Valuation</u></b>	<b><u>EFI Parallel</u></b> <b><u>Valuation</u></b>	<b><u>Difference</u></b>
Fully Projected Liability for Active Members	\$ 10,941,918	\$ 10,971,946	0.3%
Liability for Vested Terminated Members	10,860,857	10,867,684	0.1%
Liability for Retired Members	<u>85,633,350</u>	<u>85,822,153</u>	0.2%
Total Fully Projected Liability	\$ 107,436,125	\$ 107,661,783	0.2%
Present Value of Member Contributions	0	0	0.0%
Actuarial Value of Assets	\$ 138,984,167	\$ 138,984,167	0.0%
Present Value of Employer Contributions	0	0	0.0%